

## DOCUMENT RESUME

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The Department of Commerce's overseas trade exhibitions program costs about \$30 million; \$20 million in direct costs for the overseas program, \$3 million for the related domestic program to promote exports, and \$7 million spent in the United States to support these programs. The activities conducted overseas include trade centers, trade fairs, trade missions, and special promotions. A previous review of Commerce's overseas trade exhibition program concluded that the program could be more effective as a tool to promote foreign trade. Commerce has responded to earlier recommendations by allocating greater portions of resources to trade centers and fairs in developing and Communist countries. The United States is the only country to use permanent trade centers as a major export promotion technique. Trade centers are often not the most effective use of available resources for promoting exports, particularly in developed countries. The Department should discontinue the use of estimated sales as the major justification and effectiveness measurement for the program and should develop additional performance measures for the program, such as the number of new product lines exhibited and the number of new export firms attracted to its promotional events. Increased emphasis should be placed on domestic stimulus programs to get more U.S. firms into exporting and most available funds should be used to assist firms new to the field. (SC)

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STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON COMMERCE, CONSUMER,  
AND MONETARY AFFAIRS  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS.  
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

We welcome the opportunity to discuss our observations on the Commerce Department's overseas trade exhibitions program. Our comments are rather current in that we have just completed reviewing the Department's progress in improving the program as a result of recommendations we made previously in reporting to the Congress.

Since July 1, 1971, we have issued 31 reports to the Congress, its Committees, or individual Members on trade-related matters, including trade-promotion activities of the Department of Commerce. These reports have included recommendations--both

to the Congress and to the departments and agencies concerned--to improve the effectiveness of Government programs for promoting exports.

Our interest stems from a recognition that increased exports serve the national interests through stronger trade and balance of payments positions. Our export posture must be improved to help pay the increasingly heavy costs of oil and raw material imports.

#### ALLOCATION OF PROMOTION RESOURCES

Commerce's current export promotion programs total approximately \$30 million--\$20 million in direct costs for the overseas program, \$3 million for the domestic program, and \$7 million spent in the United States to support these programs.

The activities conducted overseas include trade centers, trade fairs, trade missions, and special promotions.

--Trade centers are permanent exhibition facilities used for trade shows and for between-show promotion events, such as technical sales seminars and displays of products of firms new to exporting. Commerce operates fully equipped trade centers, with staff and exhibit space for trade shows, in 6 developed market country cities (London, Paris, Milan, Stockholm, Tokyo, and Sydney) and 4 emergent market country cities (Tehran, Taipei, Mexico City, and Singapore). Commerce also has smaller centers with limited display space in Cologne, Vienna, Warsaw, and

Moscow and a trade development office without exhibit space in Athens. New trade centers are to be opened soon in Sao Paulo and Caracas, and plans are being made to close Sydney.

The costs for trade center operations total about \$5 million, most of it for the trade shows. In fiscal year 1977, 76 trade shows are scheduled--49 in developed countries and 27 in emergent market countries.

--Trade fairs are Commerce-sponsored exhibits of American products at established fairs or, in some cases, at Commerce-staged fairs. The cost of these fairs annually total about \$4.3 million. In fiscal year 1977, 6 are scheuled in developed countries and 18 in emergent market and Communist countries.

--Trade missions are Commerce-sponsored visits to foreign markets by groups of American businessmen interested in direct sales, joint venture and licensing arrangements, and/or market exploration. In fiscal year 1977, trade missions are scheduled to visit 41 emergent and 9 developed market countries.

--Special promotions are events developed in response to special products or market requirements. The two commonly used are catalog shows at U.S. consulates and in-store promotions in foreign department stores. In fiscal year 1977, 25 special promotions are scheduled in developed markets and 22 in emergent markets.

Previous GAO report on  
overseas trade exhibitions

Our previous review of Commerce's overseas trade exhibitions program concluded that the program could be more effective as a tool to promote foreign trade. We recommended that the Secretary of Commerce consider:

- Allocating a greater portion of Commerce's resources for overseas promotional activities to developing countries and limiting promotional efforts to developed countries mainly to introduce new products or new-to-export companies.
- Initiating a continuing program to contact American companies, State governments, and other internationally oriented organizations to determine what types of promotional services are needed and to provide those services not offered under existing private or Government programs.

- Developing a more effective domestic program to inform American companies of the benefits of foreign trade and to stimulate these companies to use trade exhibitions to expand their export businesses.
- Evaluating the desirability of maintaining permanent, fixed-facility trade centers in view of the need for alternative promotional devices in developing countries.
- Adopting more useful measures of the benefits of trade promotion programs, recognizing that these programs cannot always produce immediate results.
- Establishing a flexible fee structure using minimal fees to attract new companies and charging higher fees to repeat exhibitors and established international trading companies.

Now I would like to discuss with you the details of our findings in following up on our prior recommendations.

Reallocation of resources  
to emergent markets

In 1970, Commerce allocated about 79 percent of its funds for trade centers and trade fairs in developed countries. We

recommended that the Department allocate a greater portion to developing countries.

Commerce has been responsive to this recommendation. For example, in fiscal year 1977, only about 40 percent of these funds will go to developed country events while 60 percent will go to trade centers and fairs in developing and Communist countries. Seventy-five percent of its trade fair participation (18 of 24 fairs) is now in developing markets. The Department has also opened trade centers in these markets. In 1971, Commerce had only one trade center in a developing market and none serving Communist markets, whereas it now has eight of varying sizes and will open two more in the near future.

Previously, promotion events in developed countries were emphasized since Commerce believed that market conditions in such countries were more conducive to immediate, substantial returns from exports than were market conditions in developing countries. The Department now believes that emergent markets offer the greatest sales growth potential over the long range and that U.S. firms must penetrate these markets early to establish a demand for American goods and services. However, it also believes that new-to-export firms<sup>1/</sup> are interested

1/ New-to-export firms are those that have not exported in the prior 12 months. New-to-market firms are those that have not exported to the market where the Commerce event is held in the prior 12 months. Firms already exporting to these markets are termed old-to-market.

primarily in immediate sales and that they can achieve this more readily in developed markets. Therefore, Commerce believes it is necessary to have promotion programs in both developing and developed markets to expand the export base with new to export firms and to encourage more experienced exporters to enter the longer range developing markets.

#### NEED FOR TRADE CENTERS

The United States is the only country to use permanent trade centers as a major export promotion technique. Major trading countries, such as Great Britain, France, Germany, and Japan, whose economies are much more dependent on exports than ours, use trade fairs not trade centers, as their primary overseas promotion technique.

In our prior report, we recommended that Commerce evaluate the desirability of maintaining permanent trade centers in view of the need for alternative promotional devices in developing countries. Commerce responded that it was essential to continue trade centers in developed markets for both short and long-term trade development reasons and as a primary means for introducing new firms to exporting.

We continue to believe that trade centers often are not the most effective use of available resources for promoting exports, especially in developed countries.

### Trade center shows duplicate trade fairs in developed countries

In Western Europe and Japan there is a well-developed structure of trade fairs, including permanent exhibit facilities, such as those in London and Tokyo. Many of these trade fairs featured the same types of products in the same country during a 12-month period as did trade center shows. In fiscal year 1975, for example, 35 of the 48 shows held in Commerce's Western Europe and Japan facilities, featured products similar to those exhibited at trade fairs in the same country during calendar years 1974 and 1975. The pattern was similar in fiscal year 1976, when 28 of 46 trade center shows featured products similar to those in trade fairs.

### Trade fairs have produced better results

Because of their international recognition, many trade fairs have more market penetration potential for U.S. firms because they attract the best audience at the decisionmaking level. Trade fairs often offer opportunities for displaying of products not suitable for the relatively small display areas at Commerce trade centers. Examples of such products are construction and mining equipment, pleasure boats, and energy-generating equipment. Such products, for example, are featured at trade fairs in France, but are too large to be displayed at the Paris trade center.

If one were to use Commerce's primary methods of evaluating an exhibition's success in penetrating overseas markets, such as

amounts of sales and numbers of new trade contacts, trade fairs are as good as or better than trade center shows. In fiscal year 1976, participants in developed country trade center shows averaged sales of \$315,000, whereas participants in Commerce-sponsored trade fairs averaged sales of \$998,000. Participants in trade center shows and trade fairs averaged about the same number of trade leads and agents obtained.

Most trade center participants  
are experienced exporters

Although the situation has improved since our earlier report was made, most trade center participants continue to be experienced exporters. This is significant, since one of Commerce's main justifications for operating the centers is that they are an effective way to introduce inexperienced firms to exporting.

Previously, we had found that more than 70 percent of the exhibitors at trade center shows were already exporting to the countries where the events were held. In fiscal year 1976, firms in this category accounted for 28 percent of the exhibitors and another 61 percent were firms which were already exporting to one or more other countries. This means that only 11 percent of the participants were in the primary target category of inexperienced firms in the export field.

## Closing of trade centers

Commerce's export promotion plans for fiscal year 1977 indicate that it has recognized the limitations of permanent trade centers in developed market countries and is acting to improve its trade promotion effort. The Department closed its Frankfurt trade center in January 1977 and opened a small facility in Cologne. The Cologne facility will not stage trade shows, but instead will support U.S. firms participating in German trade fairs. We think this is a step in the right direction since we had questioned Department officials about the justification for the Frankfurt center during the course of our review.

Commerce also has plans to close the trade center in Sydney in fiscal year 1977. In its recent congressional presentation supporting this action, Commerce said that trade shows at this center have been primarily benefiting firms already established in this market and that the Australian market can be served by other promotional techniques, such as trade fairs and trade missions.

## PROGRAM PERFORMANCE MEASURES

At the time of our earlier report, Commerce's overriding consideration in deciding where an exhibition would be held and what product line would be used was the potential to generate export sales within 12 months. Commerce allocated most of its overseas promotion funds to trade center shows and trade fairs

in developed countries because it believed that "hard sell" promotion events in such markets were more conducive to immediate results than they would be in developing country markets.

In our earlier review we found that:

- Although the U.S. share of developing market imports had been declining, Commerce's emphasis on achieving immediate sales resulted in little or no promotional effort in important developing markets such as Taiwan, Mexico, Brazil, and the Middle Eastern countries.
- Most established exporting firms we contacted said that the number of Commerce exhibitions in developed countries, while useful, could be reduced without adversely affecting their sales.
- Since most of the companies participating in Commerce's developed country promotional events were already exporting to these markets, the sales they attributed to Commerce events were overstated because they included sales which would have been made in any case and sales which were made by their foreign subsidiaries.

We concluded that short-range sales were not the best performance measures because this resulted in the Department directing its activities to those countries and firms least

in need of the effort. We, therefore, recommended that Commerce adopt more useful measures, such as the:

- Number of new to export firms attracted to its promotional events.
- Number of new product lines exhibited.
- Extent to which promotional resources are allocated to countries where there are few facilities for exhibiting U.S. products.
- Extent to which resources are used to promote competitive American products in countries where the U.S. share of the import market is relatively low.

Commerce has subsequently placed more emphasis on additional performance measures to determine effectiveness by collecting data on the amount of service and assistance it provides to companies (e.g. the number of new to export and new to market firms participating in overseas trade promotion events) and asking firms to report on how well they met their objectives for participating in Commerce's activities. However, Commerce's primary performance measure continues to be the amount of export sales reported by participants themselves as attributable to Commerce's promotional events or in the following 12 months. For example, in February 1976, in testimony in support of the fiscal year 1977 appropriation request, a Department official said that the program contributed about

\$1.3 billion to U.S. exports in 1975--a figure acquired from the participating firms who benefit from the program.

The shortcomings of sales as a performance measure as well as a program objective has also been recognized in a 1976 Commerce task force study of the export assistance programs. The study concluded that sales should not be the primary objective or measure of performance for the program because they reflect personal opinions and judgments reported by the participating businesses.

The study recommended that the program's objective be changed to improving the conditions for exporting, by overcoming the following impediments to greater involvement by U.S. firms.

1. Negative attitude--the belief that exporting is too risky and complicated; not worth it.
2. Informational gaps--ignorance of how or where to export, unfamiliar conditions and markets, complicated domestic and foreign trade regulations.
3. Operational/resource limitations--high cost of establishment in foreign market, lack of practical marketing experience in the foreign market, lack of distribution channel, lack of a business reputation/image in the foreign market, staff too small and inexperienced.
4. Foreign buyer resistance--foreign buyers' limited knowledge of U.S. suppliers, products, technology, and servicing; tendency to purchase from familiar foreign suppliers.
5. Foreign competitive factors--foreign governments' intensive support of export programs, promotional competition.

The Department has not adopted the results of the task force study, which we believe has much merit. Our position continues to be that the Department should discontinue the use of estimated sales as the major justification and effectiveness measurement for the program.

#### FEEES FOR COMMERCE TRADE SHOWS AND FAIRS

In our earlier review, we found that Commerce charged nominal fees for its trade center show and trade fair events, which were not intended to recover the costs of staging these events. These fees were the same for both new-to-export firms and established exporters. On the premise that lower exhibitor fees are a form of subsidy to interest companies in exporting, we concluded that non-exporting firms needed greater inducement than established exporters and that, since the latter claimed significant sales resulted from Commerce's events, they would be willing to pay more of the costs. We recommended that Commerce establish a flexible fee structure, charging minimal fees for new-to-export firms and higher ones for repeat users of Commerce events and for established exporting firms.

During 1975, the Office of Management and Budget told Commerce to charge full cost recovery fees to established exporters for its trade center show and trade fair promotions. As a result of discussions between the two agencies and with Congressional appropriations committees, Commerce in fiscal year 1976 adopted so-called "minimum full cost recovery" fees

which were intended to recover its direct overseas promotional costs and a portion of its overhead costs.

Commerce was concerned that full cost recovery fees would cause established exporters to cease participating in its trade center shows and trade fairs. The present fees, therefore, were based on Commerce's inquiry to various firms as to what amount they would be willing to pay to participate. The fees are substantially higher than those in effect at the time of our earlier review. Old to market exporters are now charged more than those classified as new to export and new to market--\$2,000 to \$3,500 versus \$900 to \$2,000. The variance in fees depends on the type of event and whether the country location is considered a developed or emergent market.

However, according to Commerce's own studies, the fees for old to market firms were set to recover an estimated 62 to 77 percent of Commerce's costs. Thus, Commerce is still subsidizing established exporting firms' participations in trade center shows and trade fairs. Furthermore, the amount of the subsidy will probably increase since the fees were based on program costs in fiscal year 1975 and have not been adjusted to reflect rising operating costs.

In addition, the basis used for determining costs does not include expenditures by the State Department in support of Commerce trade centers. State estimated that these costs, mainly for personnel, amounted to about \$1.4 million in fiscal year 1976.

### DOMESTIC ACTIVITIES

Our previous report recommended that Commerce initiate a continuing program to contact American companies, State governments, and other internationally oriented organizations to determine what types of promotional services are needed and to provide services not presently offered by existing programs. We also recommended that Commerce develop a more effective program to inform American companies of the benefits of foreign trade and to stimulate these companies to use trade exhibitions to expand their export businesses.

#### Contact with industry

Commerce has made progress in improving its contacts with industry to determine what export promotion services are needed. For example, through the President's Export Council, established in 1973, and its network of regional and district councils, composed of members of exporting firms, the Department can receive input on U.S. firms' export assistance needs. Also, the Department established an operational planning division in 1976 to serve as a focal point for industry-oriented communications and to make sure that the needs of U.S. firms are reflected in its export promotion planning and market research.

## Stimulating U.S. firms

Commerce has also improved its domestic program to inform companies of the benefits of exporting and of the promotional services available. However, we believe that a more focused effort is needed to identify and stimulate non-exporting firms which are capable of competing in overseas markets.

The Department's domestically oriented export development program seeks to inform U.S. firms about export benefits, opportunities, and methods and to help them compete for specific sales prospects. Five activities comprise this program.

- The major export products and systems program helps U.S. firms to compete for large export sales.
- The trade opportunities program is a computerized system through which Commerce notifies subscribing U.S. firms of specific overseas sales opportunities.
- The export information program provides overseas market and trade information in response to requests by interested firms.
- Domestic export stimulation activities are intended to make businesses aware of the opportunities available and techniques involved in exporting.

--The foreign buyers program assists foreign businessmen traveling in the United States.

The field offices of Commerce's Domestic and International Business Administration play a key role in implementing the export promotion program within the United States. In the international area, they try to get firms to participate in Commerce overseas promotional events or to subscribe to one of the overseas sales leads programs. Field offices also participate in Commerce's target industries program, which seeks to identify firms in industries that Commerce believes have outstanding export potential. According to agency officials, field office services are best suited for small and medium-size firms and about 80 percent of their resources go to assist this type firm. Internationally, the thrust of this assistance is to stimulate the so-called new-to-export and new-to-market firms.

#### Potential for increasing exports

The United States exports relatively less of its output of goods and services than do other industrial countries. The amount has been increasing over the past several years, but in 1976, exports still accounted for only about 7 percent of gross national product. This could be improved in view of America's comparative advantage in many industries, and it is important

to attract firms which do not export, thereby broadening the country's export base. A few years ago, Commerce estimated that some 20,000 firms had the capability to export but were not doing so.

Some Commerce export promotion activities are intended to attract firms with little or no experience in the exporting field. Media advertising and seminars on exporting, for example, are aimed at such firms. The international business assistance provided by Commerce's field offices is also directed primarily toward such firms. Although Commerce has these programs to stimulate firms to enter the export business when they are identified, it does not have a concentrated program for identifying capable but non-exporting firms and determining whether exporting is suitable for them.

#### SUMMATION

I would like to take a few additional minutes to make an overview of the situation. The Department of Commerce has taken steps in line with some of our previous recommendations to improve its program. We are glad to see this and look forward to continued improvement in this important area of promoting exports.

It is still evident, however, that the use of fixed-facility trade centers in developed countries does not provide the best available means for promoting increased exports over the long term. The program is thus more rigid and less flexible to respond to changing needs. Furthermore, the many trade fairs

available in the developed countries often provide a very adequate vehicle for promoting the sale of U.S. goods.

What we need most is to get more U.S. firms into exporting through increased emphasis on domestic stimulus programs and through insuring that most of the program funds are used to assist firms new to the field. The importance of maintaining and increasing sales for those firms already exporting is also recognized, but the Government should recover a reasonable portion of the costs from these firms for its services. Note that I say reasonable, since we realize that full cost recovery might discourage some firms from participating, to the overall detriment of our best interests.

Commerce has adjusted its thinking to better help those most in need and to concentrate more on those areas having the best potential markets. This, then, should also be the basis for evaluating the results of the promotion programs.

Mr. Chairman, this concludes my statement. We will be pleased to respond to any questions you or Members of the Subcommittee may have.